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**PLEASE RESPOND TO:**  
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December 23, 2003  
**VIA FAX & FEDERAL EXPRESS**

KPOW-Z.79644

David McClanahan  
Economic Analysis & Market Monitoring Division  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: **Kingsport Power Company, Application for \$50,000,000 Financing Program  
Through June 30, 2008 – Docket No. ~~03-00318~~ 03-00618**

Dear David:

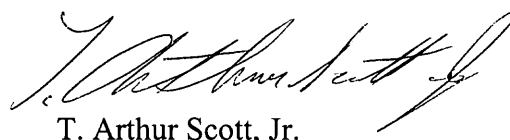
You have asked a follow-up question to the response that we provided in behalf of AEP to the data request from Aster Adams of December 10, 2003. The follow-up question was for further explanation of why not use AEP to borrow the funds rather than Kingsport Power.

As noted in the original response, AEP could borrow the funds with the approval of the TRA and loan them to Kingsport Power. In fact, AEP may potentially be able to access the markets at a lower cost than Kingsport Power, but AEP will not go to the market for a \$20 million debt offering because it is not an efficient way for a large corporation to raise capital. The amount of effort necessary to integrate such a small offering with existing debt of AEP would be the same as for a \$500 million offering. Because the Kingsport loan matures in February, 2004, and AEP does not need incremental capital at this time, AEP is more likely to fund an affiliate loan to Kingsport Power, in which case the interest rate and the maturity date of the loan would be designed to parallel the cost of capital to AEP as required by the Public Utility Holding Company Act of 1935. There would be no issuance cost, however, to Kingsport Power.

We trust this answers your inquiry. If you have any further questions, please do not hesitate to contact us.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

A handwritten signature in cursive script, appearing to read "T. Arthur Scott, Jr.", positioned above the printed name.

T. Arthur Scott, Jr.

cc: Aster Adams  
Thomas G. Berkemeyer, Esq.  
Kevin R. Fease, Esq.